Distr.
LIMITED
TD/B/SC.7/L.5/Add.2
28 August 1967
Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Fifth session
Sessional Committee

Draft report of the Sessional Committee

Rapporteur: Mr. E. TREU (Austria)

Chapter IV

REPORT OF THE COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE

(Item 7 of the agenda)

Part One - Invisibles

1. The report of the Committee on its consideration of invisibles at its second session (TD/B/118, part I and Corr. 1 and 2), was introduced by its Chairman, Mr. M. Mernolja (Yugoslavia). Several delegations expressed their satisfaction with the contents of the report and noted in particular that the resolution recommended to the Board for adoption (TD/B/118, Annex I) had been approved unanimously. All representatives who spoke on the Committee's work on insurance endorsed the provisions in the resolution concerning insurance. The representatives of developing countries emphasized the importance of the recommendation by the Expert Group on Reinsurance (TD/B/118, Annex I, Appendix), that part of the technical reserves constituted through reinsurance operations should be retained for investment in the countries where the premium income arose, as a step towards implementing the recommendations of the 1964 Conference in the field of insurance.

2. Some representatives drew attention to the important contribution which tourism could make to the economic development of developing countries and thought that the subject was appropriate for discussion at the second session of the Conference. The representative of a socialist country of Eastern Europe suggested that credits from developed countries might be made available to developing countries, repayment to be made out of the foreign exchange earnings accruing from the tourist trade generated by the Credits. The need for technical assistance to help developing countries in exploiting their tourist potential was also mentioned.

3. With reference to the resolution adopted at the second session of the Committee on Invisibles and Financing related to Trade which requested the Secretary-General of UNCTAD to convene certain meetings of expert groups, the representative of France re-stated the reservation which his delegation had formulated at the time (TD/B/118, para. 23) regarding the capacity in which members of expert groups were to serve.

4. The representative of the United States of America repeated his Government's reservation on the financial implications of the establishment of three expert groups which his Government had expressed at the Committee's second session (loc. cit.) It was pointed out by some representatives that, if accepted, the proposal of the representative of France would imply modifying a decision which had been knowingly taken by the Committee. That Committee, before adopting the resolution, had been aware of the statement of financial implications submitted by the secretariat (TD/B/118, Annex VI), wherein it had been clearly indicated that the experts would serve in their personal capacity. After clarification by the Director of the Division for Invisibles and some further discussion, in which certain compromise suggestions were put forward (such as a group composed partly of experts from official circles and partly of independent experts, or of experts who were designated by their Governments but serving in their personal capacity) the representative of France agreed not to press his proposal, on the understanding that the reservations made by his and some other Governments and the different viewpoints expressed would be recorded in the report. On this understanding the Committee recommended that the Board should take note of Part One of the report of the Committee on Invisibles and Financing related to Trade on its second session and approve the resolution on invisibles which that Committee had adopted (TD/B/118, Annex I).

Part Two. Financing related to trade

5. Mr. M. Mermolja (Yugoslavia); Chairman of the Committee on Invisibles and Financing related to Trade, introduced Part II of the Committee's report (TD/B/118). In the discussion that followed, support was expressed for the report's findings. In particular, the Agreed Statement contained in annex II of the Committee's report (reproduced also in document TD/B/119) was strongly commended by representatives of developing, developed market economy and socialist countries. The representatives of several developed market economy countries considered that the Agreed Statement typified the approach that would lead to the most fruitful kind of discussion at the second Conference. The representatives of developing countries expressed the view that early action was necessary to attain the objectives reaffirmed in the Statement.

6. Representatives of developing countries stressed their Governments' concern about the insufficient flow of financial resources from developed countries; they pointed out that it was generally agreed that developing countries could immediately put to effective use a greater volume of external assistance. The representative of one developing country stressed the need for allocating a higher priority to development aid in governmental budgets of developed countries, and several others regretted that developed countries had moved further away from achieving the 1 per cent target set at the first Conference. Still others referred to the need for reviewing that target so as to make it apply to the net transfer of resources, taking into account reverse flows due to interest and dividend payments. Several representatives expressed their support for the activities of the International Development Association and voiced concern about the excessive delay in replenishing the funds of that organization, and about the recent decision of the World Bank to transfer only a small proportion of its net income to the Association. The observer for the Bank explained the financial constraints, in particular the policies and inaccessibility of capital markets, which had led the Bank to take this decision, which, he added, was not a precedent for the future.[1/] The representatives of several developed market economy countries agreed with the necessity for increasing the flow of resources, and some of these representatives spoke of the progress made in

---

1/ For the text of the full statement see document TD/B/SC.7/L.4.

their countries towards the achievement of that goal. One of these representatives referred to the difficulty of making aggregate evaluations of the quantity and quality of the aid flows in view of the extreme diversity and complexity characterizing these flows. The representative of a socialist country of Eastern Europe stressed that the problem of the evaluation of the quantitative aspects of economic aid should be viewed in the light of the special responsibility of those countries which had ruled and exploited the developing world in the colonial period and which were pursuing neo-colonial policies at present.

7. The representative of another socialist country of Eastern Europe spoke of the need to differentiate between debt amortization on the one hand and the outflow of profits on the other, inasmuch as the latter reduced the national income of the debtor countries, and new inflows did not immediately offset such effects.

8. Anxiety was expressed by representatives of developing countries concerning the deterioration in terms of aid, both with respect to the grant element and with respect to interest rates, maturities and grace periods attached to loans. The cumulative effect of this deterioration was a growing burden of indebtedness and debt service for many of the recipient countries, a situation which had been further aggravated by the growing importance of suppliers' credits with high interest rates and short repayment periods. Representatives of developing and socialist countries referred to the need for a thorough discussion of the indebtedness and debt service problem at the second Conference, and the representative of one developing country suggested that in the case of countries with balance-of-payments difficulties a moratorium of a longer period, say 15 to 20 years, be accorded, during which repayment might be effected in local currencies, so as to facilitate trade among developing countries, and through exports of debtor countries' goods. He further proposed that an automatic debt relief clause be inserted in future loan contracts with developing countries to become effective during acute balance-of-payments crises. The representative of one developed market economy country agreed that the granting of suppliers' credits ought to be more strictly controlled and coordinated. Representatives of some donor countries pointed to the liberal terms of their aid flows.

9. The representatives of several developing countries referred to the constraints imposed on the implementation of their countries' economic plans by the tying of aid to projects and to procurement sources; in their view, the value of aid was thereby reduced. Certain of these representatives stated that the impact of tied aid ought to be lessened by permitting procurement in other developing countries, by providing for compensation or offsets for the additional cost of goods obtained under tied aid, and/or by permitting repayment in kind by debtor countries.

10. While recognizing the need for more efficient utilization of aid, the representatives of several developing countries referred to the need for a more efficient administration on the part of the donors, particularly a reduction in the long delays between project planning and aid disbursement, and the need for longer-term commitments.

11. The representatives of several developing countries recognized the importance of private capital flows to their countries. The representatives of some developing and developed market economy countries stressed the importance of fiscal incentives and guarantee schemes existing in capital-exporting and capital-importing countries, and expressed support for a system of multilateral investment insurance. The representative of one developing country called on private foreign capital to adoptaa regional approach in investment decisions. The representatives of some socialist countries doubted whether private capital would benefit the developing countries, inasmuch as profit remittances very often more than offset the new inflow of such capital. They suggested government controls on private capital so as to limit reverse flows and ensure that private investment from abroad would not interfere with national economic development.

12. There was wide agreement that the Intergovernmental Group on Supplementary Financing should continue its work and report its findings to the second Conference. The hope was expressed by the representatives of a large number of developing countries that the work of the Group would mature to the point at which a definite decision on a scheme could be adopted by the second Conference. The representatives of several developing countries emphasized that two important conditions for the viability of a scheme were that adequate resources should be provided, and that these resources should be additional to other commitments, and not merely involve a reallocation of the existing flow of capital.

13. The representatives of several developing countries spoke of the need for basing any reform of the international monetary system on principles of non-discrimination and universality, and expressed confidence that these principles would be observed in the decisions on such a reform likely to be taken at the forthcoming annual meeting of the International Monetary Fund. Many of these representatives spoke of the need for a link between the creation of new reserves and the provision of development finance. The representative of a developed market economy country opposed such a link, holding that these were two separate issues requiring separate treatment. The representatives of other developed market economy countries expressed the view that the International Monetary Fund was the most appropriate forum for such discussions and were confident that progress on this issue would be sufficient to render further discussion during the second Conference less urgent. The representatives of several developing countries and socialist countries stressed the importance of discussing international monetary issues within the framework of UNCTAD. The representatives of several developing countries expressed the hope that the successful conclusion of current negotiations on international monetary reform would in itself lessen the balance-of-payments constraints which had been used to explain the stagnation of the volume of aid and which had led to the increased tying of aid.

14. The representatives of several developing countries emphasized the need for studying the question of basic financing, and proposed the formation of an inter-governmental group of experts to examine both quantitative and qualitative aspects of basic financing and to report its findings to the second Conference, in accordance with the draft resolution contained in annex V of the Committee's report (TD/B/118). The representatives of some developed market economy countries opposed this suggestion on the grounds that it was unlikely that new ideas would be forthcoming from such a study; if any new ideas were presented, there would not be sufficient time to study them in depth before the second Conference. The representative of a socialist country of Eastern Europe suggested that the preparation of a study of basic financing should be left to the secretariat.

15. Representatives of several developing countries advocated an interest subsidization plan either on a multilateral or on a national basis, which would permit developing countries to borrow in capital markets without being obliged to pay the high rates of interest prevailing on these markets.

16. The representatives of two developed market economy countries referred to proposals for payments schemes among developing countries. One representative proposed the introduction of schemes analogous to that in use between Eastern and Western Europe within the framework of the Economic Commission for Europe, while another suggested that this matter be considered further at the next session of the Committee on Invisibles and Financing related to Trade, which would then be in a position to profit from the discussions held at the current session of the Board under item 11, and discussions during the second Conference.

17. It was decided to recommend that the Board should take note of the report of the Committee of Invisibles and Financing related to Trade (TD/B/118).

18. It was furthermore decided to recommend that the Agreed Statement adopted by the second session of that Committee (TD/B/119) serve as a basis for discussion at the second Conference.

19. It was decided to recommend to the Board that it approve the programme of work of the Intergovernmental Group on Supplementary Financing as reflected in Chapter VI of the Committee's report (TD/B/118), including paragraph 131 of that report, and authorize the Group to report directly to the second Conference.

20. Agreement was not reached in the Sessional Committee regarding the formulation of the items in square brackets and item IV (d) in the draft provisional agenda of the Conference, nor on the actions to be taken with respect to the draft resolution contained in annex V of TD/B/118.